

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 EA-07 ISO-00 L-02 EB-03 DODE-00 ABF-01 AID-05

CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 RSC-01 XMB-01

OPIC-02 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 PM-03 H-01

NSC-07 PA-01 PRS-01 SS-14 USIA-04 FS-01 OPR-01 A-01

/074 R

DRAFTED BY TREASURY:SCOX:KAD

APPROVED BY TREASURY:SCOX

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L/SA:CROH (SUBST)

A/FM:MR. MANION (SUBST)

EB/OMA:MR. BALABANIS

DOD/OSD:MR. NICHOLS (SUBST)

----- 074888

R 101658Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 223585

E.O. 11652:GDS

TAGS: AFIN, MARR, RP

SUBJECT: REGULATION OF MILITARY BANKING FACILITIES

REF: A. MANILA 9949

B. CINCPACREPPHIL 220758 AUG.

1. TREASURY AMENDMENT OF INSTRUCTIONS TO AMERICAN BANKS  
OPERATING OVERSEAS MILITARY BANKING FACILITIES (MBF),  
PROVIDING FOR REVISION OF FORMULA FOR ACCOMMODATION SALES  
OF LOCAL CURRENCIES WAS INTENDED TO INCREASE INCOME OF MBF'S  
AND THUS PERMIT REDUCTION IN TREASURY'S SUBSIDIES TO THEM.

TREASURY ADVISES THIS INSTRUCTION VIEWED AS GOVERNING ONLY  
INTRA USG TRANSACTIONS AND THEREFORE NOT CLEARED WITH STATE.

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2. AS TO PROBLEMS OUTLINED REF A. GENERAL INSTRUCTIONS FROM TREASURY TIED ACCOMMODATION RATE BY FORMULA TO ACQUISITION RATE. HOWEVER, FOR THE PHILIPPINES, THE TWO AMERICAN BANKS INVOLVED WERE NOTIFIED THAT THE ACQUISITION RATE WAS DEFINED TO BE THE INTER-BANK RATE.

3. AS TO EXCHANGE RATES USED BY PHILIPPINE COMMERCIAL BANKS, LETTERS TO ALL AMERICAN BANKS OPERATING OVERSEAS FACILITIES CONTAINED FOLLOWING PARAGRAPH:

"EXCEPTIONS. WHERE APPROPRIATE THE CONVERSION RATE . . . SHOULD BE ADJUSTED REGARDLESS OF THE INCOME FACTOR TO AVOID A LESS FAVORABLE RATE AT MILITARY BANKING FACILITIES

THAN THE IN-COUNTRY RATE CURRENTLY AVAILABLE AT COMMERCIAL BANKS AND AUTHORIZED EXCHANGE DEALERS FOR COMPARABLE TRANSACTIONS."

FOREGOING PROVISION WOULD OF COURSE PREVENT MBF RATES FOR INDIVIDUAL ACCOMMODATION SALES FROM BEING LESS FAVORABLE THAN RATES AT PHILIPPINE COMMERCIAL BANKS. FURTHER AS INDICATED REF B MILITARY COMMANDS WILL PRESUMABLY HAVE ON-BASE BRANCHES OF PHILIPPINE COMMERCIAL BANKS ADJUST RATES TO CONFORM WITH MBF RATES.

4. AS TO BULK SALES TO NON-APPROPRIATED FUNDS, USG HAS VIEWED THESE AS IN-HOUSE TRANSACTIONS NOT SUBJECT TO EXCHANGE REGULATIONS OF THE COUNTRY IN WHICH THE MILITARY INSTALLATION IS LOCATED, AND GENERAL PRACTICE FOR MBF'S HAS BEEN TO SELL LOCAL CURRENCY TO NON-APPROPRIATED FUNDS AT NOMINAL SPREAD FROM ACQUISITION RATE. REF A INDICATES, HOWEVER, THAT MBFS IN PHILIPPINES HAVE BEEN SELLING TO NON-APPROPRIATED FUNDS AT RATE, SET PER PHILIPPINE REGULATIONS, WHICH CONSIDERABLY ABOVE ACQUISITION RATE AND WHICH APPEARS HIGHER THAN NECESSARY FOR LARGE SCALE TRANSACTIONS.

5. WE HAVE FOUND NO REQUIREMENT IN MBA OR OTHER AGREEMENTS THAT MBFS MUST COMPLY WITH PHILIPPINE BANKING REGULATIONS, AT LEAST FOR INTRA-USG TRANSACTIONS. FYI  
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4 FAM 361.4 PROVIDES THAT IN NON-EXCESS CURRENCY COUNTRIES ACCOMMODATION EXCHANGE TRANSACTIONS ARE MADE AT PREVAILING RATE (DEFINED ELSEWHERE AS ACQUISITION RATE) UNLESS TREASURY SPECIFICALLY INSTRUCTS OTHERWISE. END FYI. BELIEVE, THEREFORE, THAT MBFS SHOULD BE DIRECTED TO APPLY TREASURY SPECIFIED RATE UNLESS EMBASSY SEES OVERRIDING REASONS AGAINST THIS.

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## Message Attributes

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**TAGS:** AFIN, MARR, MPOL, RP, US  
**To:** MANILA  
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